

Decent revenue growth, a miss on margins and bottom-line

Q1FY24 Result Update | Sector: Consumer Electricals | July 21, 2023

HOLD

CMP (Rs)	1,348
Target Price (Rs)	1,466
Potential Upside	8.8%
Sensex	67,572
Nifty	19,979

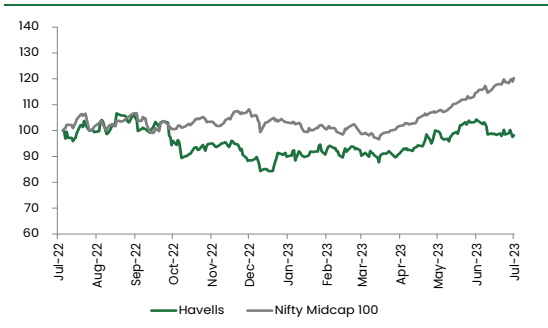
Key Stock data

BSE Code	517354
NSE Code	HAVELLS
Bloomberg	HAVL:IN
Shares o/s, Cr (FV 1)	62.7
Market Cap (Rs Cr)	84,454
3M Avg Volume	771,805
52 week H/L	1406/1025

Shareholding Pattern

(%)	Dec-22	Mar-23	Jun-23
Promoter	59.5	59.5	59.4
FII	22.6	23.11	23.79
DII	10.5	10.37	9.78
Others	7.5	7.1	7.0

1 Year relative price performance



PE Forward (x)



Research Analyst

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Decent revenue growth: Havells India posted decent revenue growth of 13.9% YoY to Rs 4,834 Cr while it remained flat sequentially. Within divisions, Cables revenue came in at Rs 1,485 Cr, up by 24.5% YoY while it declined by 5.3% sequentially. Its Llyod business remained on the growth path as it was up by 21% YoY/3.1% QoQ to Rs 1,311 Cr, ECD segment was up by 4.7% YoY/17.1% QoQ to Rs 878 Cr. Switchgears was up by 4.7% YoY whereas it was down by 10% sequentially, followed by lighting & fixtures which declined by 10.8% sequentially and remained flat against last year.

Higher Ad spends and other expenses impact margins: Raw material prices proportionate to sales saw an improvement of 142bps YoY whereas it remained flat sequentially, as a result gross margin stood at 30.4% against 28.9% in Q1FY23. However, the decline in raw materials price was offset by higher ad spends and warehousing, rental and freight increased the other expenses, as EBITDA margin declined by 24bps YoY/270bps QoQ to Rs 403 Cr.

Llyod to push for market share gains, margins to improve at slow pace: The aggressive push by the management towards the brand building has improved the positioning of the brand in the industry and as a result it is amongst top 3 AC brands in India with a market share in high single digits. It is in the process of doubling its capacity to 2 Mn units to enter into newer geographies in domestic as well as international markets. Going ahead, we anticipate the company to continue market share gains while profitability would grow at a slower pace due to brand building activity in the newer geographies.

Non-Core business revenue to improve gradually: Its ECD and Lighting segment have underperformed due to weak consumer sentiments. The company indicated that the revenue from its ECD and Lighting segments would see revival from Q3FY24 due to seasonality of the products as well as recovery in demand in rural and urban markets. Given its strong presence across the segments, we anticipate the revenue and margins to improve gradually.

Key Concall Highlights: 1) Softening of commodity prices to reflect gradually in margins. 2) BLDC Fans category share stood at 15% in the overall fans portfolio. 3) Continues to maintain higher market share in premium fans and other fans category. 4) The management took a downward price revision in Cables & Wires segment. 5) Volumes growth; Cables and Wires 30%+, Lighting Business up by ~6-8% while Llyod and Switchgear volumes growth were same as value growth. 6) Robust infrastructure and industrial capex activities to aid in high growth in Cables & Wires segment.

Outlook & Valuations: Havells has wide presence in consumer durables space like Switchgears, Cables, Lighting, ECD, TV and ACs. The consumer durables industry has been under pressure due to regulatory changes, weak consumer sentiments and seasonality of products, however, we anticipate the revival in the demand scenario would aid the company to improve its margins. Besides, robust infrastructure and industrial activities would aid in revenue growth for its core Cables segments. Financially, we anticipate its revenue/EBITDA/PAT to grow at a CAGR of 11.4%/28.4%/33.1% over FY23-25E. We recommend a **Hold rating** with a **target price of Rs. 1,466**, valuing the company at a PE of 48.4x on FY25E EPS.

Financial Summary - standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	13,938	16,911	19,515	20,979
EBITDA	1,763	1,615	2,147	2,664
EBITDAM (%)	12.6	9.6	11.0	12.7
APAT	1,196	1,072	1,491	1,898
APATM (%)	8.6	6.3	7.6	9.0
EPS (Rs)	19.1	17.1	23.8	30.3
PE (x)	70.6	78.8	56.6	44.5
RoE (%)	21.4	17.0	21.0	23.0

Source : RBL Research

Decent revenue growth

Higher ads and other expenses impact margins

Cables & Llyod segment leading the revenue growth

P&L Account Quarterly – standalone

Particulars, Rs cr	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Net sales	4,834	4,244	13.9	4,859	(0.5)
Material costs	3,366	3,016	11.6	3,380	(0.4)
Gross Profit	1,468	1,229	19.5	1,479	(0.7)
Gross Margin (%)	30.4	28.9	142 bps	30.4	-7 bps
Employee cost	357	304	17.5	328	8.9
Other overheads	708	561	26.2	615	15.2
EBITDA	403	364	10.6	536	(24.9)
EBITDA Margin (%)	8.3	8.6	-24 bps	11.0	-270 bps
Depreciation	77	75	3.4	87	(10.8)
Other income	65	48	36.2	47	38.8
EBIT	391	337	15.9	496	(21.3)
EBIT Margin (%)	8.1	7.9	14 bps	10.2	-214 bps
Interest	8	10	(13.2)	10	(13.1)
PBT	382	327	16.7	487	(21.5)
Tax	95	84	12.9	129	(26.2)
Effective tax rate (%)	24.9	25.7	-85 bps	26.4	-158 bps
Adjusted PAT	287	243	18.1	358	(19.8)
Adj. PAT margin (%)	5.9	5.7	21 bps	7.4	-143 bps

Source : RBL Research

Cost analysis

As a % of net sales	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Material costs	69.6	71.1	-142 bps	69.6	7 bps
Employee cost	7.4	7.2	23 bps	6.7	64 bps
Other overheads	14.6	13.2	143 bps	12.6	200 bps
Total costs	91.7	91.4	24 bps	89.0	270 bps

Source : RBL Research

Segmental Revenue

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Switchgears	541	517	4.7	601	(10.0)
Cables	1,485	1,193	24.5	1,568	(5.3)
Lighting & Fixtures	371	371	0.0	416	(10.8)
ECD	878	838	4.7	749	17.1
Llyod	1,311	1,084	21.0	1,271	3.1
Others	248	228	9.1	254	-2.1

Source : RBL Research

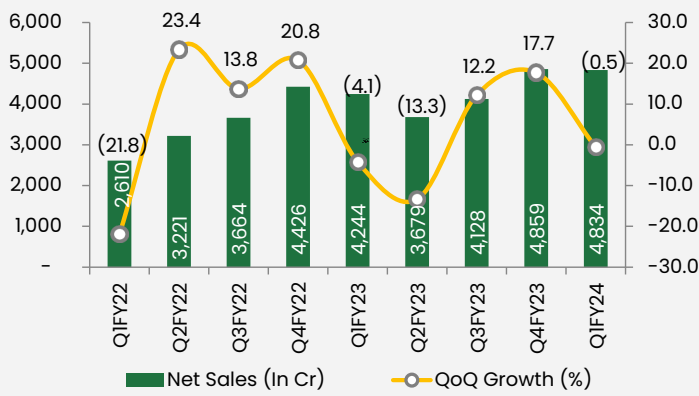
Segmental EBIT

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Switchgears	150	135	10.7	172	(12.9)
Cables	169	88	93.2	189	(10.3)
Lighting & Fixtures	53	61	-12.8	75	(29.5)
ECD	96	110	-12.9	96	-0.5
Llyod	(62)	(56)	-	(23)	-
Others	9	12	-28.2	12	(24.1)

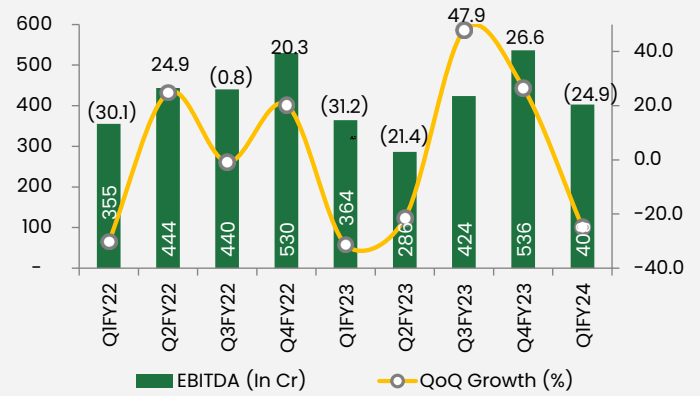
Source : RBL Research

Story in charts

Decent revenue growth

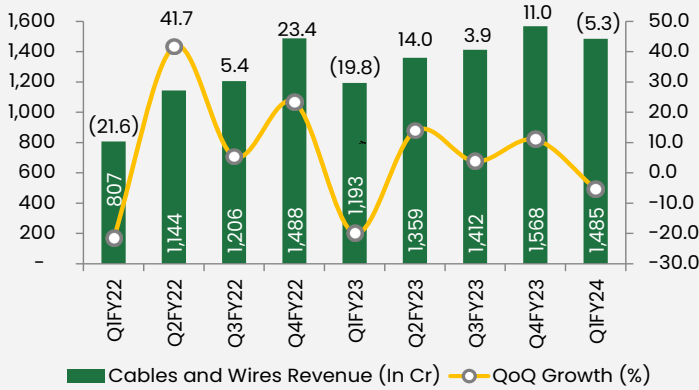


High ad spends and other expenses impact EBITDA

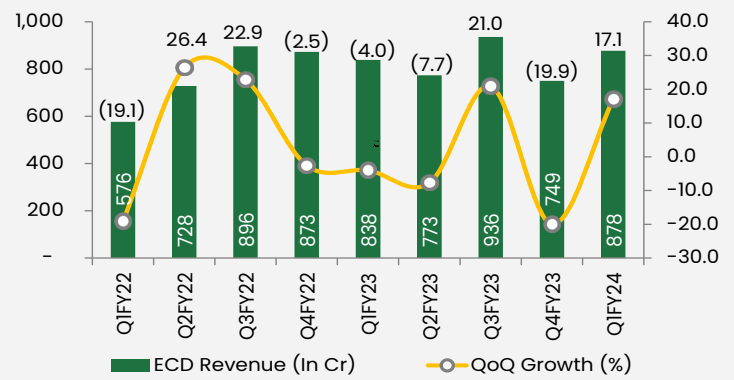


Source : RBL Research

Driven by ~30%+ volumes growth

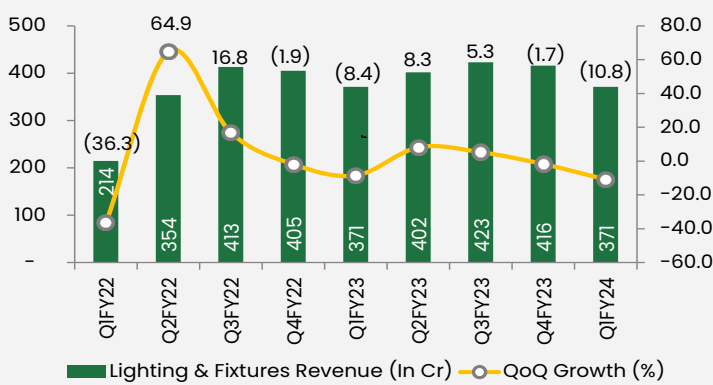


Trend of ECD revenue

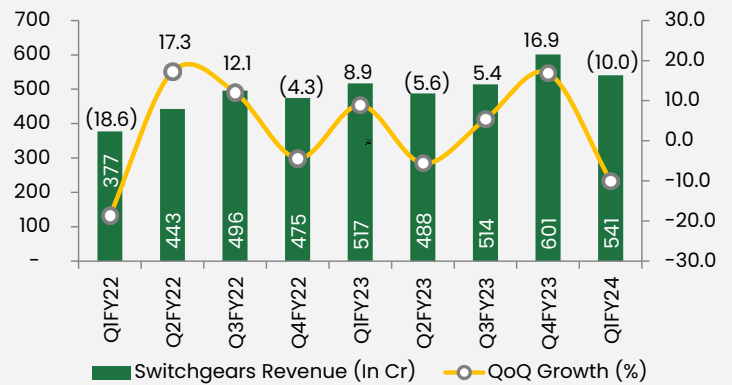


Source : RBL Research

Weak consumer sentiments impacted growth

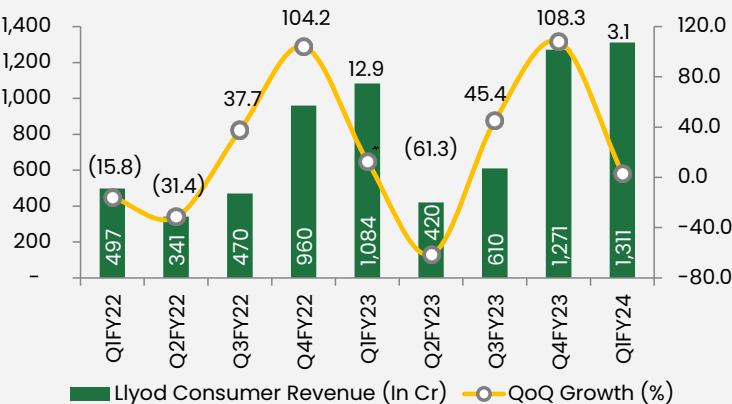


Real estate and infra activities to further aid the growth

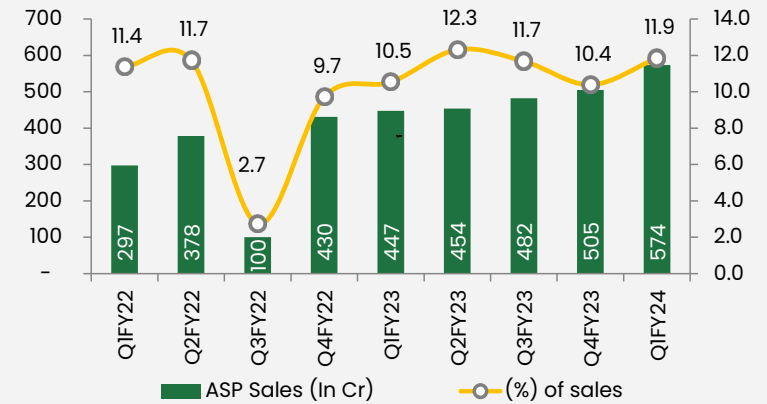


Source : RBL Research

Unseasonal rains impact seasonal business



Trend of ASP expenses



Source : RBL Research

P&L Account – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	13,938	16,911	19,515	20,979
Expenditure				
Total Raw material cost	9,422	11,705	13,173	13,951
Employee cost	1,021	1,268	1,464	1,531
Other expenses	1,733	2,322	2,732	2,832
Total expenditure	12,176	15,296	17,368	18,314
EBITDA	1,763	1,615	2,147	2,664
EBITDAM (%)	12.6	9.6	11.0	12.7
Other income	160	178	199	241
Depreciation	263	312	331	351
PBIT	1,660	1,481	2,015	2,554
Interest expenses	53	34	27	24
PBT	1,607	1,447	1,988	2,530
Tax	410	375	497	633
Reported profit	1,196	1,072	1,491	1,898
Adjusted PAT	1,196	1,072	1,491	1,898
PATM (%)	8.6	6.3	7.6	9.0

Source : RBL Research

Balance Sheet – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	62.6	62.7	62.7	62.7
Reserves & Surplus	5,926	6,563	7,521	8,824
Total Shareholder's Fund	5,989	6,625	7,584	8,886
Non-Current Liabilities				
Total Borrowings	396	-	25	50
Other long term liabilities	188	198	198	198
Deferred tax liabilities	351	362	362	362
Long term provision	76	137	137	137
Current Liabilities				
Trade payables	2,380	2,643	2,537	2,517
Short term provisions	253	275	275	275
Other current liabilities	874	917	1,059	1,138
Total liabilities	10,506	11,157	12,176	13,563
Fixed Assets	3,123	2,911	3,380	3,830
Current work in process	57	166	166	166
Non current investment	273	20	40	60
Other non-current assets	43	79	79	79
Current Assets				
Current investments	153	181	209	224
Inventories	2,968	3,709	3,903	4,930
Trade receivables	769	976	1,561	1,259
Cash & Cash equivalents	1,542	1,545	1,239	1,401
Other current assets	165	179	206	221
Total assets	10,506	11,157	12,176	13,563

Source : RBL Research

Cashflow – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Reported PBT	1,607	1,447	1,988	2,530
Depreciation	263	312	331	351
Tax paid	(410)	(375)	(497)	(633)
Working capital Change	341	(659)	(800)	(696)
Operating Cash Flow (a)	1,801	724	1,021	1,553
Capex	(1,472)	(190)	(800)	(800)
Free Cash Flow	329	535	221	753
Investments	(164)	217	(20)	(20)
Investing Cash Flow (b)	(1,636)	27	(820)	(820)
Debt Issuance/ (Repaid)	2	(396)	25	25
Dividend Paid	(470)	(282)	(533)	(595)
Others	195	(71)	-	-
Financing Cash Flow (c)	(273)	(749)	(508)	(570)
Net Cash Flow (a + b + c)	(108)	3	(306)	162
Closing Cash	1,542	1,545	1,239	1,401

Source : RBL Research

Key ratios – standalone

Particulars	FY22	FY23	FY24E	FY25E
Per Share Ratios				
Dividend per share Rs	7.5	4.5	8.5	9.5
EPS Rs	19.1	17.1	23.8	30.3
CEPS Rs	23.3	22.1	29.1	35.9
Book value per share Rs	95.6	105.8	121.1	141.8
Profitability Ratios				
EBITDA Margin (%)	12.6	9.6	11.0	12.7
PBT Margin (%)	11.5	8.6	10.2	12.1
Net Profit Margin (%)	8.6	6.3	7.6	9.0
RoCE (%)	26.3	21.6	26.9	29.6
RoE (%)	21.4	17.0	21.0	23.0
Dividend Payout (%)	39.3	26.3	35.7	31.4
Efficiency				
Fixed Asset Turnover (x)	4.2	5.4	5.9	5.6
Debtors Velocity (Days)	20.1	21.1	29.2	21.9
Inventory (Days)	77.7	80.0	73.0	85.8
Interest Cover Ratio (x)	31.1	44.0	74.9	105.5
Debt-Equity Ratio (x)	0.1	0.0	0.0	0.0
Current ratio (x)	0.9	1.0	1.0	1.3
Valuation Ratios				
P/E (x)	70.6	78.8	56.6	44.5
P/B (x)	14.1	12.7	11.1	9.5
EV/EBIDTA (x)	47.2	51.3	38.8	31.2

Source : RBL Research

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		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
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	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
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	I/we have been engaged in market making activity for the subject company?		No

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Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

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SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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